

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE CHARGING OF EXCESSIVE)
RATES BY FERN LAKE COMPANY)

CASE NO. 8276

SHOW CAUSE ORDER

On September 29, 1980, Fern Lake Company ("Fern Lake") filed with the Utility Regulatory Commission, predecessor of the Public Service Commission, its application in Case No. 7982, for: (1) certification of its proposed remedial construction work for the Fern Lake Dam, (2) authority to borrow \$1,700,000 to finance said construction, (3) approval to place into effect the surcharge necessary to amortize the loan, and (4) an increase of approximately \$50,000 in its general rate for water sold to its sole customer, Kentucky Water Service Company, Inc., ("Kentucky Water Service").

The matter was set for hearing at the Commission's office in Frankfort, Kentucky on December 16, 1980, to consider the construction, financing and surcharge portions of the application. All parties of interest were notified of the hearing. The Division of Consumer Intervention of the Attorney General's Office ("Attorney General") and Kentucky Water Service, the intervenors of record in this matter, were present and participated fully.

Thereafter, by Order dated February 27, 1981, the Commission granted Fern Lake a certificate of convenience and necessity for the proposed remedial construction; authorized the borrowing of \$1,700,000, at an interest rate not to exceed 12% per annum, to finance the proposed construction; authorized Fern Lake to place into effect, on

the first billing rendered after the borrowing, a monthly surcharge to be used solely for the purpose of servicing the loan; and ordered the current monthly surcharge of \$1,793.40 to cease upon the implementation of the surcharge approved in said case.

A further hearing to consider the rate portion of the application was held on April 7, 1981, with all parties being present. At the hearing, certain requests for additional information were made by the Commission staff. The information was filed as a part of the record and the entire matter was then submitted for final determination.

After reviewing the evidence of record in Case No. 7982, the Commission determined that Fern Lake's existing rates produce an operating ratio, after accepted pro forma adjustments, of 54.7%. As the Commission is of the opinion that a fair, just and reasonable operating ratio is 88% in that it will allow Fern Lake to meet its reasonable operating expenses, service its debt and provide a reasonable return to Fern Lake's owner, it appears that the current rates generate excess revenues. In its Order of July 23, 1981, the Commission, therefore, denied the requested rate increase and, accordingly, is instituting the above-styled case.

Pursuant to KRS 278.180 and KRS 278.260 and upon its own motion, the Commission HEREBY ORDERS that Fern Lake Company shall appear and give testimony, if any it can, why its rates should not be reduced.

IT IS FURTHER ORDERED that the record in Case No. 7982 be, and it hereby is, made a part of the record in this proceeding.

IT IS FURTHER ORDERED that this matter be, and it hereby is, set for hearing on the 24th day of August 1981, at 10:00 a.m., Eastern Daylight Time, in the Commission's office at Frankfort, Kentucky.

Done at Frankfort, Kentucky, this the 23 day of July 1980.

PUBLIC SERVICE COMMISSION

Marlin M. Vob
Chairman

Did not participate
Vice Chairman

Ann Harvin
Commissioner

ATTEST:

Secretary